G-80 General Information Series Issued November 1937

UNITED STATES DEPARTMENT OF AGRICULTURE

AGRICULTURAL ADJUSTMENT ADMINISTRATION

AAA

The Ever-normal Granary: What Can It Do for the Corn Belt and the Nation?

Adapted in the Division of Information from an address by Henry A. Wallace, Secretary of Agriculture, before a conference of corn and livestock producers and business and labor leaders at Indianapolis, Ind., November 8, 1937.

Here, in brief, is the plan Secretary Wallace proposes for the Corn Belt:

To continue stabilizing corn acreage through the A. A. A. Conservation program; To use commodity loans on corn to create an Ever-Normal Granary that will stabilize supplies and prices of corn and help to stabilize supplies and prices of livestock and livestock products; and

When the granary overflows, to use marketing and storage quotas to keep the excess corn under seal until such time as it may be needed.

The Problems of Corn

PROBLEMS of corn, in a very real sense, are the problems of all agriculture. Corn, the Nation's most valuable crop, is our greatest single source of food and feed. It appears on our tables as beef and pork and chicken, as milk and cream and cheese and eggs, as lard in our pie crust and bacon in our baked beans. Ninety percent of our corn is eaten by livestock. What happens to corn has a direct and far-reaching effect on every branch of the great livestock industry. It has an indirect effect, equally far-reaching, on the rest of agriculture. That effect extends beyond the farm and exerts a vital bearing on business and employment in the cities. What happens to corn is of tremendous importance to everyone in this broad land.

Not only the Corn Belt but the whole Nation is concerned about the things that have been happening recently to corn. In 1 month, from late September to late October, as a big new crop followed a drought shortage, corn prices tumbled from over a dollar to less than half a dollar a bushel. Just before they fell, there was a period of mad speculation on the Chicago Board of Trade as operators engaged in a titanic struggle to corner the remnants of the 1936 crop.

Recent declines in farm commodity prices, notably those of corn and cotton, and potatoes, have focused attention of farmers upon the unsolved problems of agriculture. The well-being of farmers is so important in itself and farm buying is such an important factor in the general welfare that a constructive future course for the Corn Belt is of the utmost importance.

The corn problem is a 4-sided one. One side is the decrease in demand for corn. During the last 20 years, many markets have been shrinking or have disappeared. The number of horses has gone down from 21 million head to less than 12 million. This has destroyed the market for 200 million bushels of corn. Germany, formerly the second greatest lard market, has practically ceased to buy lard from this country. England now gives the United States only 8 percent of her pork import quota, instead of the 20 percent of prequota days. Closing of export markets has destroyed the market for 140 million bushels of corn. Vegetable oils compete more and more with lard in cooking, depressing the market price for lard and affecting the demand for corn.

Improvements in feeding methods make it possible to produce as much pork with 5 bushels of corn today as was formerly produced with 6 bushels. These improved methods have cut down by 100 million bushels the amount of corn needed for feeding to hogs. The dairyman has culled out his "boarder" cows and improved his feeding methods until the same quantity of butterfat as formerly can be produced with considerably less corn and other feed. Producers of beef cattle and poultry are gradually doing the same thing. While these reductions in demand for corn have been offset in part by the increased needs due to new uses and growth of our population, corn producers have good reason to wonder what is going to happen to the demand for corn in the future.

The second side of the corn problem has been brought about by better methods of growing corn. It appears that from a strictly scientific point of view, it will be possible to increase the average yield per acre in the Corn Belt by 10 bushels or more. This can be done through the use of lime, phosphates, clover, and hybrid corn. Every efficient method that really helps to produce more bushels with less labor and less cost should be used, but it must be recognized that higher yields make the corn problem harder to solve, in view of the reduced demand for corn both at home and abroad. The severity of this problem has been hidden by the low yields in 1930, '34, '35, and '36.

While increased yields can be produced by better methods, there is a third side of the corn problem. This is the depletion of soil fertility that results from keeping too much land in corn. In the Corn Belt nearly half the crop is grown on land so rolling that it washes badly. More than four-fifths is raised on land that requires greater use of legumes and grasses in rotation and the application of more fertilizers, if fertility is to be maintained.

Better modern methods of growing corn may blind many people to the fact that loss of soil fertility is a real threat to the economic life of the Corn Belt. Corn on rolling land, unless kept in its place by proper rotation, is one of the worst of all soil destroyers.

The fourth side of the corn problem is the extreme variability in the supply and price of corn, and of the livestock and livestock products produced by the use of corn as feed.

Corn production in the last 5 years has varied by a billion bushels from 1 year to the next. Along with these extreme variations in production have come extreme variation in price. The farm price of corn has ranged from 10 cents a bushel in 1932 to more than a dollar a bushel in August of 1937, and then, a few short weeks later, back to as little as 40 cents. The farm price of hogs within the same period has ranged from \$3 to \$13 a hundred pounds.

Supply of feed influences price of meats.—The high price of beef in New York this fall resulted in a retailers' meat strike which closed 4,500 butcher shops. Corn farmers know that the price of meat was too high this fall in New York City. They sympathize with the New York consumer. From a selfish point of view farmers producing corn and fat cattle don't like closed butcher shops in the great cities; neither do they like to have the city press complaining about the high price of meat. They know that when public resentment is built up against meat many consumers may learn to get along without meat and the per capita consumption of meat may be permanently reduced. Farmers know that in the long run \$13 hogs do them as much damage as \$3 hogs. The \$13 hog destroys city markets and produce consumer resentment. They hold out the bait which later results in \$3 hogs. And the \$3 hogs are just as bad for city consumers as the \$13 hogs are for farmers. The \$3 hogs destroy farm purchasing power, and inevitably this reacts on the consumer.

In spite of the fact that consumers periodically have to pay abnormally high prices for meat, they have been able to do very little about it in a fundamental way. For these price fluctuations are really due to variations in production.

It would be sound business to arrange things so that the consumers in the cities could get a more regular supply of meat year after year.

But, unfortunately, corn producers have long been the victims of what is commonly known as the "corn-hog cycle." There can be no permanent solution of the problems of pork production which does not take into account the close relation of corn to hogs.

Farmers and consumers understand how they both are hurt by wide swings in supply and price of feed and livestock. Only the speculator profits from these extremes. The welfare of business man, laborer, farmer, and consumer is bound up with increased stability.

The corn problem has been with us in greater or less degree ever since the World War. Several attempts to solve it have been made. The first attempt in the years after the War was the development of cooperative associations for the marketing of livestock. Then, as Corn Belt farmers came to realize that cooperative marketing by itself would not fully solve their problem, they swung their support to the McNary-Haugen export plan. After this plan had twice met with Presidential vetoes no attempts of any consequence to solve the corn problem were made for several years. The Federal Farm Board was busy making purchases of cotton and wheat in the central markets. But the corn problem could not be reached except out on the farms.

Agriculture adjusted on conservation basis.—Finally, in 1933, after the corn producers and most of the other farmers had reached a desperate state, the Agricultural Adjustment Act was passed. More than a million corn and hog producers took part in the Corn-Hog Program under that Act. Processing taxes on hogs and corn provided funds equal to benefit payments made to farmers who signed contracts to adjust their production of both commodities.

There were corn loans in 1933 and succeeding years. Farmers remember how, during the drought of 1934, the surplus corn carried over from the preceding fall through the means of the corn loan, swelled the scanty feed supply, and helped to save herds of hogs and cattle.

They remember how the drought-resistant crops produced on the so-called "rented acres" further helped to relieve the drought shortage. And they doubtless remember vividly that day in January 1936, when they were told by the Supreme Court that everything they had been doing 2½ years was unconstitutional. Farmers doubtless remember also how the Supreme Court handed 200 million dollars of processing-tax money over to the processors, and Congress had to find the money to make the payments farmers had earned.

Congress hastened to replace the invalidated portions of the Agricultural Adjustment Act with the new soil-conservation law. Under the new Act, shifts in the farm program, which had been planned as gradual changes, were made quickly. The encouragement of soil conservation, which had been a by-product of the old program, became the main objective of the new one. With the processing taxes gone, the farm program lost its old self-financing character. The new conservation payments depended on annual appropriations by Congress from the general Treasury.

Meritorious as the conservation program is, it does not fully meet the needs of Corn Belt farmers nor does it fully guard consumers.

What kind of farm program is needed to deal with Corn Belt farm problems?—Some people answer that no program at all is needed. But farmers in the United States have a right to demand that they shall not be made the victims of unrestricted competition in an economic system against the rigors of which other great groups have Government protection. International trade, instead of operating freely across international lines, is throttled by tariffs, quotas, and embargoes. If labor and business have a right to protection at the hands of the Government, then why should not farmers also have that right?

By pursuing a sensible trade policy, it may be possible to recapture the market for as many as 2 million head of hogs at a price satisfactory to the American producer. But handicaps are so great that progress in reviving export trade must necessarily be slow. And until foreign trade is sufficiently restored so that farmers are no longer made the victims of our own tariff system, it is only fair and right for the Government to give the farmers, in some form, the equivalent of the advantage which the tariff now gives to industry.

New industrial uses not always practical.—Among the people who are against the farm programs are some who would like to have the farmers believe that the solution of all the Corn Belt's problems can be found through the development of new industrial uses for farm products. These people say that the way to get a larger demand for corn is to turn it into fuel alcohol.

But if any large market for corn were to be developed in this way, either farmers themselves or the Government would have to subsidize the manufacturing. The only other alternative would be to place a heavy tax on motor fuel that did not contain alcohol produced from corn. There is no prospect at any time within the next 5 or 6 years for any large quantity of corn to be used for motor fuel. Too many millions of people are interested in buying gasoline as cheaply as possible and object to seeing Government money used to subsidize an uneconomic infant industry as long as gasoline is so cheap.

Facing the facts with an open mind, we find certain conclusions evident: First, as things are today it is unfair to subject farmers alone to unlimited competition; second, there is no magic way of reopening quickly our big export markets; and third, Corn Belt farmers can not afford to rely on chemistry for a quick solution of their problems.

All of which lead to a fourth conclusion: The best way now open to deal with the corn problem is through cooperation of farmers in a program that will iron out the cycles of glut and scarcity; create an Ever-Normal Granary giving farmers and consumers better protection against food and feed shortages, due to drought; stop the ruthless destruction of soil; and safeguard agriculture, business, and labor against the disaster of farm price collapse. To do these things, farmers must have the help of their Government. Social action to accomplish them is fully justified because such a program is vital to the public welfare.

Dollar corn fed on declining hog market.—The present situation in the hog market shows what farmers have to contend with. Prices have been falling, and the decline has hurt, because many hogs sold this fall were fed on dollar corn. The extremely high hog-price level of late summer and early fall was due mostly to the great drought of 1936 coming on the heels of the 1934 drought. This level could not be maintained, especially with business slackening and consumer buying power weakening. Even before the good corn crop of this year had any opportunity to affect hog supplies, the price had gone down materially. If this year's good corn crop should be followed by crops as large or larger than this one, and if there should be further decline of consumer purchasing power, farmers could easily be faced again with the calamity of a $3 price for hogs.

It should be remembered that a corn crop which in 1920 would not have been too large, today is very definitely too large because of the changes in demand. It should be remembered also that the full effect of these changes has been hidden from farmers, first by the foreign loans and artificially stimulated exports of the 'twenties, and second, by the unusual weather and short crops of the 'thirties. Any farmers who fondly believe that in a series of ordinary growing seasons they can easily get parity prices for hogs and corn are going to get a rude shock. With ordinary growing conditions, farmers can maintain parity prices for hogs and corn only by regimenting themselves and their production more drastically than they have thought of doing thus far. It is doubtful whether Corn Belt farmers are prepared to regiment themselves so rigor-

ously, besides, they need not do so. When farmers count up their gains in efficiency, both in growing corn and in feeding corn to hogs, they will see that a price level for hogs and corn moderately below pre-war parity will give them their maximum income and at the same time protect the consumer.

During the next 5 or 10 years, plans for the Corn Belt should be based chiefly on the relationship of corn to livestock. Of the 90 percent of the corn normally eaten by livestock, nearly half is consumed by hogs. The first step in making plans is to estimate the number of hogs that will best serve the farmer and protect the consumer. When this number is known, farmers can figure about how many bushels of corn they need to produce, one year with another.

Department of Agriculture studies indicate that, with a National income of 70 billion dollars as in 1937, the farmers should be able to sell, for Federally inspected slaughter, from 9½ to 10 billion pounds of hog flesh on the hoof at a price averaging around $8 to $8.50 per hundred pounds at the packing plant, or $7.50 to $8 on the farm. This would mean producing about 43½ million hogs each year for Federally inspected slaughter. It would mean a pork supply for consumers 30 percent greater than was marketed during the past year. And if National income should increase above 70 billion dollars, farmers could sell still more hogs without lowering prices, because the total amount of money the Nation spends for pork rises and falls in direct proportion to changes in the National income.

For the immediate future, taking into account the total number of hogs to be produced and the corn needed for other livestock and for seed and miscellaneous uses, farmers might plan to grow somewhere around 2 billion 400 million bushels of corn a year.

At average yields of 25 bushels per acre over the country, and of 30 bushels in the Corn Belt, a little over 93 million acres would be required to produce 400 million bushels of corn. This acreage is somewhat less than corn plantings in the old days because demand is smaller and methods of growing corn have been improved.

As a matter of fact, an acreage somewhere around 93 million is in line with plantings under the present A. A. A. Conservation Program. The corn acreage being harvested this year is 96 million acres. The corn-acreage goal for 1938, under the conservation program, is 92 to 96 million acres. Such a stable yet flexible acreage goal, with allowance for moderate expansion or contraction as needed, is in harmony with the goal of balanced abundance for the Nation and fits all sides of the 4-sided corn problem.

How much carry-over of corn should the Nation plan to have, so as to back up the annual production of corn with adequate reserves? The only way to guard against the disaster of drought years like 1934 and 1936 is to provide for carrying more corn over from the good years into the bad. Droughts cut the corn production by a billion bushels in 1934 and again by a billion bushels in 1936. Contrast this billion bushels with the customary carry-over of only 170 million bushels.

The fact that in the past there has usually been only 170 million bushels carried over is a serious reflection on the economic set up in the Corn Belt and the Nation. The cotton users of the world, in order to feel protected, have ordinarily had a carry-over of 45 percent of the world crop. The wheat users of this country have normally had a carry-over of 15 percent of the ordinary crop. But of corn, which is so susceptible to drought, there has been a carry-over of only about 7 percent of the ordinary crop.

A long stride ahead toward stability could be made with a carry-over in the future that would average twice as much as the carry-over has averaged in the past. That would mean an average carry-over of about 350 million bushels. Since weather and growing conditions vary in unpredictable ways, the size

of the carry-over is bound to fluctuate from year to year. The Ever-Normal Granary should work like a reservoir. In years of drought, it can be drawn upon and the level of the reserve supply reduced. In years of big crops the granary can be replenished.

How could the carry-over be built up? This can not be left to the blind operation of economic forces which in the past have resulted in only a 7 percent reserve.

Getting stability is a job for the farmers and the Government. It can be done through the use of commodity loans on corn stored under seal in cribs on the farm. The first clue to the way of doing the job became evident in the fall of 1933 when, with the aid of a Government loan of 45 cents a bushel, farmers stored 270 million bushels of corn under seal. This corn was carried over into the drought year of 1934 and helped to save millions of head of livestock. When the price of corn went up, the farmers instead of the speculators got the profit. That corn loan of 1933 was really the beginning of our Ever-Normal Granary plan. It showed how to do the job that needs to be done now.

How can the farmer's price be protected from the increase in the visible corn supply? First of all, the corn would be tightly held under seal. It would be stored on the farm and not in the central markets. Furthermore, the loan itself would assure the farmer of a minimum value for his corn. In some cases, as in 1933 and again this year, this value might be above the market value. It should be realized that loans on corn have more effect on market price than loans on export commodities like cotton.

One difficult point in working out a sound Ever-Normal Granary program is the size of the loan. If the loan is too high and there is favorable weather in the following year, or perhaps the 2 following years, the result may be losses so large as to discredit the program. This program is so important that it must not be discredited. Corn Belt farmers should cherish it as something which is not primarily the Government's program, but their very own. If they do not cherish it in this spirit, but organize in the spirit of temporarily looting the Government, the final result will be a greater loss to the farmers than if there had been no program at all.

With regard to the amount of the loan, whether it be on corn, cotton, or wheat, the legislation which is finally passed should not be so rigid as to be unworkable. But at least the Government should be able to use the corn loan under proposed legislation to keep prices, under any conditions, from sliding down to bottom levels. The 1937 corn loan in effect fixes a point below which the cooperating farmers' return per bushel can not go.

To set the entire Ever-Normal Granary plan in its proper perspective, it should be pointed out that its main value is not in the protection it gives to the price of corn, important as that will sometimes be, especially to the cash corn grower. Its main value is in stabilizing the amount of corn available as feed for livestock, and in turn the amount and price of livestock put on the market. Not the 10-cent corn of 1932 but the $3 price for hogs resulting from that corn crushed the farmers producing corn and hogs. Not the price of corn, but net income from the sale of livestock, is what really counts for the livestock producer.

It seems obvious that the loan and corn-sealing program ought to be confined to the commercial area of the Corn Belt. In this area most of the farmers have an interest in corn so intense that they are willing to give real thought and effort to cooperating in effective programs.

Confining the corn-sealing program to the commercial corn area will open the way for opponents of the program to try to arouse farmers in this area against it by telling them that corn acreage is increasing at their expense

somewhere else. Ever since 1933 stories have been spread in the Corn Belt that farmers of the South were expanding their corn acreage while Corn Belt farmers cut down. But the records show that from 1932 to 1937 the number of acres planted to corn in 13 States of the South actually decreased by more than 2½ million acres. The truth is that a stabilized price for corn would discourage such expansion outside the Corn Belt. The thing that really stimulates such expansion is low cotton prices.

What if there were losses in connection with the corn-loan program? Are the farmers ignoring the Government's budget requirements when they ask for an Ever-Normal Granary for corn? In answer to these questions, it must be said first of all that farmers want this program to be self-financing. They want the program managed so that losses on loans will be held to a minimum. Agriculture has not asked for subsidies from the Government except to offset tariffs and other privileges given industry. In view of the great value of the Ever-Normal Granary to the whole Nation, no one will question the justification for Government financing of the administrative costs. And as to the Government money loaned, it should be pointed out that in 1937 the Government is offering its fifth consecutive corn loan without yet having lost a dollar on these transactions. Any future losses that may be incurred in the loan program may be partly or wholly defrayed by a moderate tax on each bushel of corn processed.

How can the surplus be controlled if the Granary should overflow? One method would be to couple the corn loan with storage quotas applying not only to cooperators but also to noncooperators in the Corn Belt. When the granary overflows, loans might be offered to the noncooperators at a rate something like 70 percent as high as the rate to cooperators, and they might be required to hold a certain percentage of their corn off the market until the granary is no longer overflowing. This percentage would be their storage quota. The rest of their corn would be their marketing quota, which could be sold or fed to livestock.

It would seem fair to the noncooperators that they should receive a loan on their storage quota at a lower rate than that received by the cooperators. If the noncooperators have overplowed their land and have contributed to soil depletion and soil erosion and in so doing have built up the surplus of corn, they are not entitled to a loan on their surplus as high as the loan to which the cooperator is entitled on his surplus.

Farmers should not be asked to seal up their surplus corn in this way unless the corn producers in the commercial areas of the Corn Belt, by a referendum vote in the late summer or early fall, have indicated by at least a two-thirds majority that they want such surplus control. All corn farmers in the commercial corn area would be eligible to vote in this referendum, whether they were or were not cooperating in the conservation program. Farmers whose yields per acre or planted acreages were low should not be required to seal their excess because they would not have an excess. Neither should quotas be given to farmers who have less than about 20 acres of corn or who cut their corn for silage.

Those persons who refuse to seal their corn under Government loan, who refuse to save their surplus corn against a day of need, would, it is proposed, pay a penalty tax on each bushel marketed or fed in excess of their marketing quota.

The use of marketing and storage quotas for noncooperators would be a form of what is often called "compulsory control," as distinct from purely "voluntary control," but many farmers will feel that the term is misleading. The "control" is not something imposed from above regardless of the will of the great majority of the farmers affected. In reality it is simply a means of

making sure that the work of the cooperators shall not be destroyed by those who won't cooperate.

While the program should be so set up as to be fair to noncooperators, it should be fair also to farmers who cooperate. Under the program proposed, the interests of the cooperators would be safeguarded: First, through the conservation payments they receive; second, through the building up of their soil; third, through the increased efficiency of their farms; and fourth, through the higher loan value of their corn. At the same time the National interests and the Treasury would be protected by what the cooperators do.

What if there are 3 or 4 years of good corn crops in a row? How could the plan be kept operating under such conditions? In answer to such questions, attention should be called to the fact that only once since the War have we had as many as three big corn crops in a row. That was in the years 1921, 1922, and 1923. Furthermore, farmers whose excess corn was under seal in cribs on their own farms, and who knew that in the following year they would likely again be limited to a marketing quota, would be foolish to go ahead and produce all the corn they could. From their own standpoint the more sensible thing to do would be to grow only a moderate amount the next season and supplement it with corn taken out from under seal.

One very important point is that the marketing quota would help the Government protect itself on a corn loan, and would make possible a higher loan than otherwise could be risked. This in itself may be vital, especially in times when Government financial outlays must be curtailed.

Farmers want an Ever-Normal Granary Program which is sound, and which can be kept going and improved year after year. They don't want another Farm Board failure which cost them and the Treasury many millions of dollars. They want to be protected against price collapse. They want to see agriculture have its fair share in the National income. Protection against drought and protection for the consumer—yes, but also protection for the farmer against the effects of an overflow of the granary. They don't want ever again to see corn burned as fuel in the Corn Belt, as it was in the depression days of 1932. They don't want ever again to see thousands of retail butcher shops in New York City closed in protest against the high price of meat.

Business needs the assurance of a stable flow of raw materials. It needs the support of healthy farm buying power, too. It needs freedom from the fear of a slump of farm income due to drought losses or farm price collapse. Right now the fall in farm prices is a factor in general business uncertainty. That in turn reacts on farmers.

Labor has everything to gain from increased stability of supplies and prices of the important foods derived from corn. Labor has everything to gain from stability of employment in all the different industries related in one way or another to agriculture.

The corn-growing industry with its ups and downs and sudden changes has been acting like an engine without a flywheel. So has the rest of agriculture, and so has much of industry. The Nation needs an economic balance wheel that will enable all of its business to operate far more smoothly in the future than it has in the past.

The imperative task of this generation is to give our National economy such a balance wheel. Farmers, through an Ever-Normal Granary, can help enormously in our Nation's advance toward this goal. Attainment of this goal of National stability will assure the preservation of our freedom and of our democracy.

U. S. GOVERNMENT PRINTING OFFICE: 1937